

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**BRAZIL**

**FISCAL MANAGEMENT MODERNIZATION AND STRENGTHENING PROGRAM OF THE  
STATE OF AMAZONAS (PROFISCO-AM)  
(BR-L1388)**

**INDIVIDUAL LOAN UNDER THE CCLIP TO SUPPORT THE MANAGEMENT AND  
INTEGRATION OF TAX ADMINISTRATIONS IN BRAZIL  
(BR-X1005)**

**LOAN PROPOSAL**

This document was prepared by the project team consisting of Carlos Pimenta (IFD/FMM), Project Team Leader; María Cristina Mac Dowell (FMM/CBR), Project Team Co-leader; Luiz Vilella (IFD/FMM); Betina Hennig (LEG/SGO); German Zappani (FMP/CBR); Carlos Lago (FMP/CBR); Ernesto Jeger, Luciana Pimentel, Marcio Cracel, Mario Ferreira de Andrade, and Andreia Gomes (consultants); and Marina Massini and Daniela Avila (IFD/FMM).

Under the Access to Information Policy, this document is subject to Public Disclosure.

## CONTENTS

### PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING .....	1
A.	Frame of reference and rationale .....	1
B.	The Bank's strategy in the country and sector.....	6
C.	Objectives, components, and costs .....	8
II.	FINANCING STRUCTURE AND MAIN RISKS .....	11
A.	Financing, procurement, and contractual clauses .....	11
B.	Environmental and social safeguard risks .....	13
C.	Risks .....	13
III.	PROJECT IMPLEMENTATION AND MANAGEMENT PLAN .....	14
A.	Summary of the institutional agreement for implementation.....	14
B.	Summary of results monitoring arrangements.....	15

ANNEXES	
Annex I	Development Effectiveness Matrix (DEM) - Summary
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

ELECTRONIC LINKS	
REQUIRED	
1.	Annual work plan (AWP) <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38669820">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38669820</a>
2.	Monitoring and Evaluation Plan <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38669758">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38669758</a>
3.	Procurement Plan <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38731814">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38731814</a>
OPTIONAL	
1.	Economic analysis <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38731810">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38731810</a>
2.	Institutional-Fiscal Macro-diagnostic Assessment <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38669837">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38669837</a>
3.	Study on the challenges facing the Tax Administration (Technical Notes) <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38844608">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38844608</a>
4.	Report on the Fiscal Adjustment Program (PAF) in the State of Amazonas <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38669929">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38669929</a>
5.	Matrix of problems, solutions, and outcomes <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38669778">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38669778</a>
6.	Preliminary detailed version of the project's outputs, targets, baselines, and budget <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38669820">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38669820</a>
7.	Application of the risk analysis methodology in a workshop with all project stakeholders <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38669806">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38669806</a>
8.	PROFISCO CLIPP frame of reference <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38732968">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38732968</a>
9.	Impact of the National Fiscal Administration Support Program for Brazilian States (PNAFE) on State Tax Administrations <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38733000">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38733000</a>
10.	Dissertation by Jocelino Demuner on the impact of the PNAFE on State Tax Administrations <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38805507">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38805507</a>
11.	Announcement of the creation of the Projects Coordination Unit published in the Official Gazette <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38772319">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38772319</a>
12.	Approval of the loan amount published in the Official Gazette <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38805921">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38805921</a>
13.	Preliminary midterm evaluation of PROFISCO CCLIP BR-X1005 <a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38825170">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38825170</a>
14.	Law 4038 of 26 May 2014 authorizing the loan operation for the program

<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38827936>

15. Safeguards policy filter

<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38670180>

## ABBREVIATIONS

AFI	Administração Financeira Integrada [integrated financial management]
AM	Amazonas [State of Amazonas]
AWP	Annual work plan
CCLIP	Conditional Credit Line for Investment Projects
DEM	Development Effectiveness Matrix
FFF	Flexible Financing Facility
GAF	Gestão da Ação Fiscal [Fiscal action management]
GBC	General Bidding Committee
GDP	Gross domestic product
IBGE	Instituto Brasileiro de Geografia e Estatística [Brazilian Institute of Geography and Statistics]
ICMS	Imposto sobre a circulação de mercadorias e prestação de serviços [Goods and services sales tax]
IT	Information technology
NF-e	Nota Fiscal Eletrônica [Electronic tax invoice]
OC	Ordinary Capital
PAF	Programa de Ajuste Fiscal [Fiscal Adjustment Program ]
PCU	Projects Coordination Unit
PGE	Procuradoria Geral do Estado [State Attorney General's Office]
PNAFE	Programa Nacional de Apoio à Modernização da Administração Fiscal para os Estados Brasileiros [National Fiscal Administration Support Program for Brazilian States]
PRODAM	Processamento de Dados do Amazonas S.A. [Amazonas Data Processing Company]
PROFISCO	Programa de Apoio à Gestão e Integração dos Fiscos no Brasil [Program to Support the Management and Integration of Finance Administrations in Brazil]
SEFAZ	Secretaria de Fazenda do Estado de Amazonas [State of Amazonas Finance Department]
SEINFRA	Secretaria de Estado de Infraestrutura do Estado de Amazonas [State of Amazonas Infrastructure Department]
SPED	Sistema Público de Escrituração Digital [Digital Public Accounting System]
STN	Secretaria do Tesouro Nacional [National Treasury Department]
TCE	Tribunal de Contas do Estado [State of Amazonas Audit Office]

## PROJECT SUMMARY

### BRAZIL

#### FISCAL MANAGEMENT MODERNIZATION AND STRENGTHENING PROGRAM OF THE STATE OF AMAZONAS (PROFISCO-AM)<sup>a</sup> (BR-L1388)

#### INDIVIDUAL LOAN UNDER THE CCLIP TO SUPPORT THE MANAGEMENT AND INTEGRATION OF TAX ADMINISTRATIONS IN BRAZIL (BR-X1005)

(BR-X1005)

Financial Terms and Conditions					
Borrower: State of Amazonas			Flexible Financing Facility (FFF) <sup>b</sup>		
			Amortization period:	25 years	
Guarantor: Federative Republic of Brazil			Original weighted average life:	15.25 years <sup>c</sup>	
			Disbursement period:	5 years	
Executing agency: State of Amazonas, through the State Finance Department (SEFAZ).			Grace period:	5.5 years	
Source	Amount	%	Inspection and supervision fee	d	
IDB: Ordinary Capital (OC)	US\$36.9 million	90	Interest rate:	LIBOR-based	
Local:	US\$4.1 million	10	Credit fee:	d	
Total:	US\$41.0 million	100	Currency:	U.S. dollars from the Bank's OC	
Project at a Glance					
<b>Program objective.</b> The program's objective is to improve the efficiency and effectiveness of fiscal management in the State of Amazonas, by increasing the state's own revenue and improving its financial management, thereby helping to improve the overall equilibrium and sustainability of its public finances.					
<b>Special condition precedent to the first disbursement.</b> As a special condition precedent to the first disbursement of the loan proceeds, the borrower will provide evidence that the program's Operating Regulations, previously approved by the Bank, have entered into force (paragraph 3.4).					
<b>Exception to Bank policies.</b> As explicitly provided for in the PROFISCO framework document (BR-X1005), the borrower has requested authorization to use Brazilian federal legislation for the procurement of works in amounts below US\$25 million per contract, and for procurement of goods and nonconsulting services in amounts below US\$5 million per contract (paragraph 2.2).					
Project qualifies as:	SEQ [ ]	PTI [ ]	Sector [ ]	Geographic [ ]	Headcount [ ]

<sup>a</sup> The Legislative Authorization Act (Law 40,388 of 26 May 2014) will require rectification in the section referring to the State's counter-guarantee and must be approved in advance by Senate resolution.

<sup>b</sup> Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

<sup>c</sup> The loan's original weighted average life (WAL) could be shorter, depending on the actual loan contract signature date.

<sup>d</sup> The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans.

## I. DESCRIPTION AND RESULTS MONITORING

### A. Frame of reference and rationale

- 1.1 This project forms part of the Conditional Credit Line for Investment Projects (CCLIP) for the Program to Support the Management and Integration of Tax Administrations in Brazil (PROFISCO – BR-X1005), which was approved in 2008 and modified in 2013. The general objective of this operation and its four components is aligned with those set out in the CCLIP, as indicated in [Resolution DE-132/08](#), of 5 November 2008, amended by [Resolution DE-75/13](#), of 18 July 2013.
- 1.2 **Rationale for the PROFISCO credit line.** Under law, Brazilian states are authorized to collect their own taxes, which, in 2012, represented 65% of their total current revenues.<sup>1</sup> In return, the states are legally responsible for providing multiple services to their population (water, drainage, security, electric power, etc.), and this puts heavy pressure on them to expand the coverage and improve the quality of the services they supply. The difficulty of increasing tax revenue and keeping public expenditure and borrowing within fiscally responsible bounds limits the investments needed to increase the supply of services. The PROFISCO credit line supports the strengthening of fiscal management to enable the states to collect more revenue and execute public expenditure more efficiently.
- 1.3 The project is also eligible for the PROFISCO credit line pursuant to paragraph 1.17 of document GN-2246-4, because it is aligned with the credit line's sectors and components, it was included in the country program and strategy with Brazil, and it is the first operation under this CCLIP in the State of Amazonas.
- 1.4 **Macroeconomic context of Brazil and the State of Amazonas.**<sup>2</sup> Brazil's macroeconomic performance has deteriorated in recent years, as reflected in weak economic growth rates (0.9% in 2012, 2.3% in 2013, and an estimated 1.65% in 2014), within a fiscal context that does not pose significant risks for public debt sustainability. Economic growth rates in the state of Amazonas have broadly matched the trends in the national economy (0.4% in 2012 and 4.5% in 2013). In 2013, Amazonas's GDP was 1.46% of the country's GDP,<sup>3</sup> attaining a per capita GDP of US\$8,535,<sup>4</sup> compared with a national average of US\$10,893.
- 1.5 **Socioeconomic context of Amazonas.** The State of Amazonas is one of Brazil's 27 federal units; it is situated in the North region of the country and covers an area of 1,559,159 square kilometers. It has a population of roughly 3,483,985 inhabitants, the vast majority of whom (79%) live in urban areas, while

---

<sup>1</sup> Source: Ministry of Finance – National Treasury Department, *Balanco do Setor Público Nacional 2012* [National Public Sector Accounts 2012].

<sup>2</sup> Data from the Central Bank of Brazil and the Brazilian Institute of Geography and Statistics (IBGE).

<sup>3</sup> In 2013 Brazil's GDP was US\$2.190 trillion, and that of Amazonas was US\$31.9 billion (State Finance Department – SEFAZ).

<sup>4</sup> Roughly R\$20,488, ranking it 11th in Brazil out of a total of 26 states and the Federal District (IBGE).

the remaining 21% live in rural areas. The state's main social indicators in 2013 were as follows: (i) human development index of 0.674 (below the averages of 0.728 for Brazil as a whole and 0.681 for the North region);<sup>5</sup> (ii) infant mortality rate of 22.2 per 1,000 births (Brazilian average of 18.8);<sup>6</sup> (iii) sewerage network access for 17.7% of the population (Brazil, 46%);<sup>7</sup> and (iv) 18.7% of the population living in extreme poverty (national average, 11.5%).<sup>8</sup> This characterizes Amazonas as a poor state that needs high levels of public investment for social development.

- 1.6 **Fiscal context of the state.** In the 2009-2013 period, Amazonas posted primary deficits averaging -0.65% of GDP, reflecting its modest tax revenue performance and a high level of public investment expenditure. The latter represented 2.8% of GDP between 2009 and 2013, compared with an average of 1.1% of GDP for the 26 states and Federal District (Source: National Treasury Department).<sup>9</sup> In 2012, Amazonas achieved a primary surplus of 0.55% of GDP,<sup>10</sup> which partly reflects the rollout of the fiscal action management (GAF) program.<sup>11</sup> In 2013 the state again recorded a primary deficit (-1.23% of GDP), owing mainly to insufficient revenue growth and an increase in capital investment of almost 1% of GDP. A resumption of the positive results achieved in 2012 would require tax revenues to be strengthened further and the GAF system to be fully implemented,<sup>12</sup> to be able to finance the high levels of investment needed (see Table 1).
- 1.7 On the public expenditure side, payroll expenses have been rising since 2010, although they dropped back slightly in 2013, and other current expenses have grown by two percentage points of GDP since 2010. The revenue efficiency indicator (measured as total cost of SEFAZ/tax revenue) was 3.3% in 2013,<sup>13</sup> compared with the 2% recommended internationally.<sup>14</sup> This program will help reduce SEFAZ costs.
- 1.8 Amazonas public debt maintained a constant trend on the order of 6% of GDP between 2005 and 2012, well below the 10% average for the 26 states and Federal

---

<sup>5</sup> Ranked 18th in Brazil out of a total of 26 states and the Federal District.

<sup>6</sup> Ranked 19th out of the 26 states and the Federal District.

<sup>7</sup> Annex: Listing of Brazil's federal units by sewerage system access.

<sup>8</sup> Technical study 20/2012. Poverty Trend. Ministry of Social Development and Fight against Hunger.

<sup>9</sup> Although public investment in Amazonas is above the national average, and contributes to the primary deficit, the expenditure in question is needed to address the state's social needs.

<sup>10</sup> Tax revenue as a percentage of GDP rose in 2012, having fallen in 2011.

<sup>11</sup> The GAF exercises online control over freight entering and exiting the state and records the tax.

<sup>12</sup> The number of tax inspectors fell in 2013, and this problem will be addressed by implementing a risk management system for the selection of taxpayers for inspection in the GAF.

<sup>13</sup> Calculation made by the project team using data obtained from the SEFAZ transparency portal (<http://www.transparencia.am.gov.br/transpprd/Cálculo del Equipo del Proyecto con información del Portal de Transparencia de la SEFAZ>).

<sup>14</sup> Source: International Monetary Fund.



District.<sup>15</sup> In this context, one of the main challenges facing Amazonas is to improve fiscal management and keep its finances in balance while maintaining public investment at the current levels needed to improve its social indicators.

**Table 1. Performance of public finances in the State of Amazonas (% of GDP)**

Description / Year	2007	2008	2009	2010	2011	2012	2013
<b>Income</b>							
1. Current revenue (1.1+1.2+1.3 -4 )	16.74	18.30	16.73	17.27	17.55	18.92	18.57
1.1 Tax revenue	9.50	10.58	9.36	10.23	9.85	10.39	10.59
1.1.1 Goods and services sales tax (ICMS)	8.82	9.84	8.65	9.52	9.09	9.58	9.73
1.2 Current transfers	4.98	5.75	4.84	4.86	4.76	4.92	5.27
1.3 Other current revenue	2.26	1.97	2.54	2.18	2.94	3.62	2.71
2. Capital revenue	0.50	0.67	2.21	1.30	0.69	1.41	2.03
3. Education deductions (FUNDEB)	-1.58	-1.91	-1.88	-1.95	-1.93	-1.99	-2.01
4. Total net revenue	15.67	17.06	17.06	16.63	16.30	18.76	19.05
<b>Expenditure</b>							
5. Current expenditure	12.63	13.59	13.68	13.35	13.46	14.90	15.35
5.1 Payroll	6.16	6.57	6.93	6.38	6.70	7.53	6.99
5.2 Interest and other debt charges	0.25	0.23	0.24	0.27	0.29	0.26	0.25
5.3 Other current expenditure	6.22	6.79	6.50	6.70	6.48	7.11	8.10
6. Capital expenditure	2.37	3.04	3.83	3.38	2.87	2.69	3.75
6.1 Investments	2.06	2.70	3.43	2.91	2.36	2.16	3.15
6.2 Debt amortization	0.32	0.33	0.40	0.47	0.51	0.54	0.59
7. Total expenditure	15.00	16.62	17.51	16.73	16.32	17.59	19.10
8. Primary balance (4-2)-(7-5.2-6.2)	0.74	0.32	-2.02	-0.67	0.09	0.55	-1.23
9. GDP (Million – nominal values)	42,023	46,823	49,614	58,290	65,039	69,113	76,300

\* Source: SEFAZ.

1.9 **Institutional arrangements.** Fiscal management in Amazonas, which encompasses the entire macro process of public revenue and expenditure, is conducted through four institutions: (i) SEFAZ; (ii) the State of Amazonas Economic Planning and Development Department; (iii) the State of Amazonas Attorney General's Office (PGE); and (iv) the State of Amazonas Comptroller General's Office.<sup>16</sup>

1.10 SEFAZ is responsible for: (i) preparing the annual budget and monitoring its execution; (ii) collecting tax owed, formulating and executing the state's economic-taxation policy; administering the tax system; directing, steering, and coordinating

<sup>15</sup> Source: Amazonas Debt Sustainability Analysis (2013) and Fiscal Space of Brazilian States (IDB-DP-310).

<sup>16</sup> The program is mostly focused on SEFAZ, which is the lead institution in the fiscal and tax revenue area.

activities involving the collection, inspection, receipt, and control of taxes and other state revenues; and (iii) managing expenses, including the control, monitoring, and booking of expenses in the accounts.

- 1.11 SEFAZ has the following units: (i) in Manaus—a central treasury agency; and (ii) in the municípios—11 treasury agencies, 11 tax collection agencies, eight fixed tax inspection stations, and two mobile tax inspection offices. To fulfill its mission, SEFAZ has 723 permanent staff<sup>17</sup> distributed among tax administration and other administrative categories, together with 214 commissioned posts subject to free appointment.
- 1.12 **Key progress in fiscal management.** Over the last 10 years, SEFAZ has been implementing a wide-ranging institutional strengthening process, financed largely with Bank resources under the National Fiscal Administration Support Program for Brazilian States (PNAFE), which was executed between 1997 and 2006. Since 1998, significant progress has been made in fiscal management (tax and financial) (see Table 2).

**Table 2. Progress in Tax and Financial Fiscal Management**

<b>Organization and strategic management</b>
(i) Redesign of organizational processes; (ii) establishment of the posts and career structure; (iii) organizational restructuring, with the creation of the Executive Budget Department and other units, such as Tax Intelligence; (iv) construction, using PNAFE resources, of Annex 1 of the headquarters building, and implementation of the new operational model; and (v) updating of strategic planning.
<b>Tax administration and tax litigation</b>
Adoption of the following tax management instruments: (i) business intelligence tools; (ii) establishment of the fiscal network <sup>18</sup> with the aim of overcoming inconsistencies in the information filed by taxpayers; (iii) consumer's electronic tax invoice; <sup>19</sup> (iv) electronic notices of infraction; (v) digital certification; (vi) Decree 32,128, of 16 February 2012, regulating accessory fiscal obligations in relation to electronic tax procedures; (vii) the Import Document Process Management System; (viii) the GAF's tax inspection station management module (GPF); (ix) creation of the tax inspection station on highway BR-174; and (x) and the administrative tax proceedings.
<b>Financial management</b>
(i) Better control of budgetary execution in the integrated financial administration system; (ii) inclusion of automatic public accounts and bank reconciliation processes; (iii) integration with control systems; and (iv) improvements in the commercial management system to execute property depreciation.
<b>Management of corporate resources</b>
(i) Implementation of a new management model as part of the structuring of the Information Technology Department; (ii) procurement of information technology infrastructure; (iii) construction of the annex to improve service; (iv) holding of a competitive tender; and (v) remodeling of the headquarters building for training.

<sup>17</sup> 429 men (60%) and 284 women (40%).

<sup>18</sup> SER/SEFAZ Service Order 002/2013.

<sup>19</sup> State Decree 33,405/13.

- 1.13 **Main challenges facing Amazonas.** Despite the significant progress made, the state needs to further improve fiscal management, to keep its finances in balance and maintain the current levels of public investment needed to improve its social indicators. The main challenges facing Amazonas in taxation and financial administration are described below.
- 1.14 In terms of strategic management, it is crucial for a tax administration to have an integrated staff, preferably working in shared spaces to facilitate meetings and rapid, transparent, and effective decision-making. SEFAZ has problems operating in this way, because its physical and logistics premises are fragmented and inadequate to accommodate all the necessary staff and detained merchandise. They are also expensive,<sup>20</sup> since it is necessary to rent an additional property for about 70 staff.<sup>21</sup> In terms of cooperation and integration with other finance departments, SEFAZ personnel have low rates of participation in national and international forums and meetings, where innovative solutions for fiscal matters are put forward. Representatives from the 26 states and the Federal District participate in these meetings to present and discuss new techniques, methodologies, fiscal systems, and studies, all aimed at improving tax administration.<sup>22</sup>
- 1.15 In tax administration, inspection services have difficulties in controlling the interstate transit of goods,<sup>23</sup> mainly owing to the lack of methodologies and technological instruments for border inspection,<sup>24</sup> particularly in the case of river-borne cargo.<sup>25</sup> Moreover, there are difficulties with the inspection of establishments in terms of checking information, as a result of insufficient capacity to process and verify<sup>26</sup> all of the information obtained from the various data collection instruments,<sup>27</sup> mainly the Digital Public Accounting System (SPED).<sup>28</sup> The

---

<sup>20</sup> At the present time, the physical premises at SEFAZ headquarters accommodate 578 staff. The adoption of an open-space office design would allow for 787 employees (an additional 209).

<sup>21</sup> SEFAZ spends R\$2,813,000 per year on rental, office upgrading, electricity, cleaning, and building maintenance (2013).

<sup>22</sup> In 2013, SEFAZ participated in one of the four meetings of the leading fiscal forum (the Finance Management Commission).

<sup>23</sup> Of the 12,000 freight units that pass through the state per month, only 1.5% are inspected. The total amount of tax revenue obtained from control of goods in transit was R\$3.968 billion in 2013, 53% of ICMS revenue.

<sup>24</sup> Of the 11 inspection stations, only one is equipped with a weigh scale to check the weight of declared cargoes.

<sup>25</sup> Amazonas cargo is transported by river (83%), road (1%), and air (16%) (SEFAZ). The state has 23,000 kilometers of navigable rivers, and 3,947 kilometers of roads, of which 1,085 kilometers are paved).

<sup>26</sup> In 2013, 88% of establishments were not audited (and they generated revenue of R\$851 million).

<sup>27</sup> Every month, 2 million electronic tax invoices (NF-e) and 528,680 electronic shipping documents (CT-e) are issued, by a total of 61,763 registered issuers. In 2015, an estimated 30,000 new firms will be issuing the consumer's electronic invoice (NFC-e).

adjudicated tax claims process is deficient,<sup>29</sup> because procedures and systems are inadequate, and the tax debt recovery rate is low.<sup>30</sup>

- 1.16 In financial management, there are difficulties in adequately estimating medium- and long-term debt service,<sup>31</sup> owing to lack of methodologies and specialized tools, and in making decisions on resource allocation because there are no instruments to estimate public costs accurately.<sup>32</sup> In the management of the state's liabilities, knowledge of the number of court rulings against the state and amounts involved is lacking, owing to shortcomings in the monitoring system and lack of integration with decentralized agencies.<sup>33</sup>
- 1.17 In the management of corporate resources, there are difficulties in satisfying the information technology (IT) demands of users in terms of response times<sup>34</sup> and the development and maintenance of SEFAZ systems, because technology assets (development, software, hardware, and IT management) are outdated.<sup>35</sup> In managing its human resources, SEFAZ is not implementing competency-driven staff development<sup>36</sup> aligned with the organization's institutional strategies,<sup>37</sup> nor does it take gender into account.<sup>38</sup>

## **B. The Bank's strategy in the country and sector**

- 1.18 The intervention areas prioritized by the program are aligned with the Bank's 2012-2014 strategy with Brazil (document GN-2662-1), the strategic objectives of which emphasize: (i) promoting a sustainable fiscal balance at the subnational level; (ii) improving the efficiency and quality of public expenditure; and (iii) improving initiatives on transparency and dialogue with society. Within the strategy, in the fiscal domain, the Bank intends to support subnational government actions to:

---

<sup>28</sup> Electronic tax invoices: between firms (NF-e) and to the final consumer (NFC-e); digital tax accounting system (EFD); electronic tax document declaration (MDF-e); electronic shipping document (CT-e).

<sup>29</sup> The state's adjudicated tax claims, which are handled by the State Attorney General's Office (PGE), represent tax debts that could not be collected within the legal timeframe and were therefore referred for enforced collection.

<sup>30</sup> Of an average balance of R\$1.8 billion (2010-2013), just 0.64% on average was recovered per year.

<sup>31</sup> From 2008 to 2012, the average difference between the amount estimated and the amount paid was 16%, which results in budgetary resources being allocated incorrectly, thereby generating cash management problems.

<sup>32</sup> Although total budgetary expenditure per sector is known, SEFAZ does not have detailed knowledge of the cost of services supplied (e.g. the cost per student in school, per inmate in prison, or per patient in hospital), because it does not have a cost management methodology.

<sup>33</sup> It takes an average of five years to identify court rulings in excess of R\$1 million.

<sup>34</sup> It can take up to two hours to consult the NF-e database, compared with the recommended 30 seconds. It takes 19 days to obtain information for inspection (recommended: one day), and 15 hours to recover databases in the event of loss (recommended: one hour).

<sup>35</sup> The 2009 evaluation of SEFAZ IT risk management identified a 51% risk level in IT areas, physical environment, personnel, and processes (on a scale of 0% to 100% risk, the lower the better).

<sup>36</sup> SEFAZ has never undergone a competency-based performance appraisal.

<sup>37</sup> There is no competency-based training plan aligned with institutional strategies.

<sup>38</sup> SEFAZ has a staff of 713, of whom 429 are men (60%) and 284 are women (40%).

- (i) reduce institutional disparities between Brazilian tax administrations, by improving and harmonizing qualitative performance standards, procedures, and the criteria adopted; (ii) promote cooperation and integration among finance administrations at the three levels of government; (iii) promote sustainable fiscal balance at the subnational level; and (iv) improve tax education and citizenship programs and initiatives on transparency and dialogue with society. The program is also aligned with the 2014 Operational Program Report (document GN-2756) and contributes to the priorities of the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2). The operation is also aligned with the lending program priority of supporting regional cooperation and integration, set out in the GCI-9 Report (document AB-2764), since it contributes to the harmonization of domestic tax administrations at the subnational level. It also contributes to the following regional targets: (i) the index of actual tax revenue collected in relation to potential; and (ii) the percentage of total public expenditure managed on a decentralized basis.
- 1.19 The Bank has been implementing various fiscal modernization projects for the Brazilian states, which have been deemed successful. This program is part of a long-term process of Bank support on these issues, which include the National Fiscal Administration Program for Brazilian States (PNAFE) (980/OC-BR)<sup>39</sup> and several PROFISCO operations for the states. These experiences have generated important lessons learned on fiscal issues, which have been widely shared among all currently executing PROFISCO projects, such as: effective exploitation of the information generated from the implementation of the electronic invoice (SPED) and the modernization of inspection procedures by using risk analysis to select taxpayers.<sup>40</sup> The fact that PROFISCO is based on those experiences has given the Brazilian authorities confidence ([728/SE-MF](#)) to continue working with the Bank in strengthening fiscal management.<sup>41</sup>
- 1.20 This operation is also aligned with the Program for Fiscal Consolidation to Improve Public Service Delivery in the State of Amazonas (PROCONFIS-AM, 3139/OC-BR), since it complements the consolidation of agreed fiscal policies to help strengthen the state's fiscal sustainability profile. To support the increase in tax revenue, PROCONFIS-AM has regulated the use of the SPED, outbound goods

---

<sup>39</sup> The PNAFE has characteristics that are very similar to those of PROFISCO; and it has made significant progress in the modernization of fiscal management in Brazil, as described in the dissertation produced by Jocelino Demuner, on the impact of the PNAFE on state tax administrations ([optional electronic link 10](#)). According to page 79 of the dissertation, the PNAFE generated a real increase of 8.01% in ICMS revenue, which in 2006 was 11 times larger than the entire PNAFE investment of US\$500 million.

<sup>40</sup> The midterm evaluation of the PROFISCO credit line ([optional electronic link 8](#)) found that in the 14 states that have currently executing PROFISCO projects, ICMS revenue in 2009-2012 grew by 5.6%, while GDP growth was 4.8%.

<sup>41</sup> Among the specific advances made by PROFISCO, the Federal Government of Brazil mentions the issuance of 6 billion electronic tax invoices (NF-e) and 968,000 taxpayers authorized to issue them.

transit operations, and other rules governing the collection and recovery of tax claims. To complement this, PROFISCO-AM will finance the establishment and implementation of these policies, including new systems, methodologies, equipment, and training, such as an increase in SPED data processing and analysis capacity, the introduction of new procedures and technological tools to support the physical inspection of goods in transit, and the improvement of processes for managing the state's adjudicated tax claims and liabilities.

**C. Objectives, components, and costs**

- 1.21 **Objective.** The program's objective is to improve the efficiency and effectiveness of fiscal management in the State of Amazonas, by increasing the state's internally generated revenue and improving its financial management, thereby helping to improve the general equilibrium and sustainability of public finances.
- 1.22 The main expected impact is the achievement of a primary surplus on average over the period 2015-2019. The program will benefit: (i) the state government, by providing additional resources to implement its public policies; and (ii) the entire Amazonas population, with fairer and more efficient tax collection, and more accessible and transparent public expenditure. The project will finance the following components:
- 1.23 **Component I. Integrated strategic management (US\$10,700,000).** This component will finance activities to enhance SEFAZ's organizational and logistics environment, along with institutional cooperation instruments. It includes improvements to SEFAZ's physical and logistics premises to make it possible to adopt open-space office designs,<sup>42</sup> and the implementation of interagency cooperation mechanisms to enable SEFAZ personnel to participate more in knowledge-dissemination and experience-sharing events.
- 1.24 **Component II. Tax administration and tax litigation (US\$24,810,000).** This component will finance activities to increase the state's internally generated revenue and make the collection and recovery of tax claims more effective. These activities will include the implementation of new inspection procedures for goods in transit in the GAF system (using risk analysis methodologies to select taxpayers for inspection and technological tools to support the physical inspection);<sup>43</sup> the modernization of procedures to inspect establishments (with emphasis on the capacity for processing and analyzing SPED data); and the implementation of a computer system to improve processes for managing taxpayers' adjudicated tax debt.

---

<sup>42</sup> Estimated to generate savings of over US\$500,000 per year (SEFAZ Technical Note and Economic Assessment).

<sup>43</sup> Risk management-based selection methodology, dynamic weigh scales for moving vehicles, video cameras, scanners, and inspection vehicles that can operate in the rain.

- 1.25 **Component III. Financial and property management and internal control (US\$1,915,000).** This component will finance activities to improve the efficiency and effectiveness of public financial administration, by implementing a public debt management system that, in addition to generating reports to support decision-making, will produce better estimates of debt service. Support will also be provided for implementing a public cost management system, to identify unit costs in key sectors of the state; and for modernizing state liability management procedures, including their redesign and the introduction of a system for monitoring lawsuits filed against the State.
- 1.26 **Component IV. Management of strategic corporate resources (US\$3,045,000).** This component will finance the modernization of SEFAZ technological and human resource management, with the updating of its technology assets, including planning tools, hardware, and software; and the implementation of new personnel management procedures with competency analysis. The training events<sup>44</sup> held using project funds will follow the provisions of the program Operating Regulations and gender-focused strategies to ensure equitable participation by women and men among SEFAZ staff.<sup>45</sup>

**Table 3. Overall project budget (US\$)**

Categories*	IDB	Local	Total	%
<b>1. Project administration</b>	<b>530,000</b>	-	<b>530,000</b>	<b>1.29</b>
1.1 Project management	315,000	-	315,000	0.77
1.2 Monitoring and evaluation	215,000	-	215,000	0.52
<b>2. Direct costs</b>	<b>36,370,000</b>	<b>4,100,000</b>	<b>40,470,000</b>	<b>98.71</b>
2.1 Integrated strategic management	10,700,000		10,700,000	26.10
2.2 Tax administration and tax litigation	20,710,000	4,100,000	24,810,000	60.51
2.3 Financial and property management and internal control.	1,915,000	-	1,915,000	4.67
2.4 Management of corporate strategic resources	3,045,000	-	3,045,000	7.43
<b>Total</b>	<b>36,900,000</b>	<b>4,100,000</b>	<b>41,000,000</b>	<b>100</b>
<b>%</b>	<b>90</b>	<b>10</b>	<b>100</b>	

\* Financial costs will be paid by the borrower outside the program.

- 1.27 The total cost of the project is estimated at US\$41 million, of which the Bank will finance US\$36.9 million equivalent from the Flexible Financing Facility (FFF) of its Ordinary Capital (OC). Counterpart funding of US\$4.1 million will be provided by the State of Amazonas. Table 3 shows the project's funding structure.

<sup>44</sup> Training in inspection, taxation, revenue collection, and the operation of tax systems, and also covering topics needed to operate the GAF system.

<sup>45</sup> These strategies will include criteria such as: women's participation in the training events proportionate to SEFAZ staff gender distribution.

- 1.28 **Scheduling of disbursements.** Disbursements will be made over a five-year period running from the loan contract signature date (Table 4).

**Table 4. Disbursement schedule (US\$ million)**

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total	%
<b>IDB</b>	13.6	9.5	5.3	4.4	4.1	36.9	<b>90</b>
<b>Local</b>	4.1					4.1	<b>10</b>
<b>Total</b>	<b>17.7</b>	<b>9.5</b>	<b>5.3</b>	<b>4.4</b>	<b>4.1</b>	<b>41.0</b>	<b>100</b>
<b>%</b>	<b>43</b>	<b>23</b>	<b>13</b>	<b>11</b>	<b>10</b>	<b>100</b>	

- 1.29 **Economic rationale.** The project team made a comparative analysis of the program's economic and financial costs and benefits, in respect of two of its outcomes. It is conservatively estimated that: (i) with full implementation of the GAF system and the introduction of innovative equipment to support the inspection of goods in transit (scanners, dynamic weigh scales, vehicles that operate in the rain, etc.), an annual financial benefit of US\$9.6 million is expected as of 2016, as a result of the increase in ICMS revenue obtained from goods in transit;<sup>46</sup> and (ii) the renovation of SEFAZ physical premises is expected to generate a financial benefit of US\$394,000 per year, as a result of savings by eliminating rented premises and lower expenses on power, water, sewerage, telephony, and other items, from 2015 onwards.

**Table 5. Key Indicators of the Results Framework**

Indicator	Base year 2013	Target year 2019
<b>Impacts</b>		
1. Primary surplus (% GDP)	(Average for 2009-2013) -0.65	(Average for 2015-2019) 0.12
2. Increase in the efficiency of tax collection (%)	(2013) 3.3	(2019) 3.0
<b>Outcomes</b>		
1. ICMS revenue obtained from goods in transit (R\$ million)	3,968	6,766
2. Expenses with SEFAZ buildings (R\$ thousand)	2,813	904
3. ICMS revenue obtained from tax intelligence actions (R\$ million)	851	1.896
4. Ratio between the amount recovered and the balance of adjudicated tax claims (%)	0.64	1.5
5. Error between amount of debt payment provided for and the amount paid (%)	16	10

<sup>46</sup> In the Economic Assessment of PROCONFIS-AM, the outcome that made the program viable was the increase in ICMS revenue from business establishments.



Indicator	Base year 2013	Target year 2019
6. SEFAZ IT management risk rating (index 0-100)	51	10

- 1.30 An economic-financial cost-benefit analysis of the project reported an internal rate of return of 26% and a net present value (NPV) of US\$13.3 million in 10 years, using an annual discount rate of 12%. These figures justify financing by the Bank. It should be noted that additional economic and financial benefits from other program activities were not quantified, so the result of the cost-benefit evaluation could improve still further. Given the projected results, the project is considered economically and financially viable. Moreover, an analysis of various scenarios shows that it is sustainable over time even in the face of economic and political contingencies, and that it adds value in excess of the benefits specified in the analysis, thereby contributing to the equilibrium and general sustainability of Amazonas's public finances.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing, procurement, and contractual clauses

- 2.1 **The country's fiduciary context.** Brazil has a solid and transparent regulatory and institutional framework, with robust national fiduciary systems that allow for sound management of administrative, financial, control, and procurement processes, in accordance with principles of transparency, economy, and efficiency. Accordingly, the Bank's fiduciary strategy for Brazil targets progressive and sustainable use of the country's fiduciary systems (see Annex III).
- 2.2 **National legislation.** As explicitly provided for in the PROFISCO framework document (BR-X1005), the borrower has requested authorization to use Brazilian legislation for the procurement of works in amounts below US\$25 million per contract and goods and nonconsulting services in amounts under US\$5 million per contract. The borrower's decision to apply Brazilian legislation will be indicated in the procurement plan. The procurement of works, goods, and nonconsulting services in amounts equal to or above the thresholds specified in this paragraph will be undertaken according to document GN-2349-9 of April 2011.
- 2.3 The Bank will be able to recognize the following financing modalities provided for in federal legislation for the procurement of off-the-shelf goods and services: (i) online auction using the *ComprasNet* online purchasing system or the Banco do Brasil bidding system for the procurement of off-the-shelf goods and services with an estimated cost of no more than US\$5 million; (ii) price list for the procurement of off-the-shelf goods and services with an estimated cost of no more than US\$5 million, such list having previously obtained the Bank's no objection; and (iii) in-person auction, for the procurement of off-the-shelf goods and services with an estimated cost of up to US\$100,000. The Bank may eliminate the use of one or more of the modalities described in this paragraph at any time during the implementation period.

- 2.4 **Selection and contracting of consulting services.** Processes for the selection and contracting of consulting services, financed in whole or in part from the loan proceeds, will comply with the Policies for the selection and contracting of consultants financed by the Inter-American Development Bank (document GN-2350-9).
- 2.5 **Recognition of expenses and retroactive financing.** The Bank may retroactively finance up to US\$7,380,000 as a charge against the loan proceeds (20% of the loan amount), and recognize up to US\$4,100,000 against the local counterpart funding (100% of the counterpart), in respect of eligible expenses incurred by the borrower before the loan approval date, provided requirements substantially analogous to those specified in the loan contract have been fulfilled. The expenses in question will have been incurred after the project profile approval date (2 May 2014), and in no circumstances will they include expenses incurred more than 18 months before the loan approval date, pursuant to the terms of the Bank's Policy on recognition of expenses, retroactive financing, and advance procurement (document GN-2259-1/OP-507).<sup>47</sup> This retroactive recognition is justified by the advance implementation of bidding processes in Amazonas to upgrade SEFAZ's physical and logistics premises, and to purchase specialized equipment and computer hardware for the inspection of goods in transit.
- 2.6 **Direct contracting.** In accordance with section 3.10 (d) of the Policy for the selection and contracting of consultants financed by the Inter-American Development Bank (document GN-2350-9), the borrower may directly contract the PRODAM data processing company (*Processamento de Dados do Amazonas S.A.*), which is a semipublic closed-capital corporation created by Law 941/70, in which the State of Amazonas is the controlling shareholder, for a total amount of roughly US\$1.0 million. The direct contracting of PRODAM is justified by the need for continuity in the work it is currently doing in SEFAZ and by its unique technical knowledge of the State of Amazonas's information systems.
- 2.7 The borrower may also directly contract *Softplan Planejamento de Sistemas Ltda*, for an amount of up to US\$1,063,000, to prepare the litigation and consultative modules for the PGE with a view to [program expansion](#). The direct contracting of *Softplan* is justified by the need for continuity of the work undertaken in the PGE, by the firm's unique technical knowledge of PGE information systems, and by the exclusive intellectual property rights granted to it by the Brazilian Software Enterprises Association. The contracting is also justified by the fact that *Poligraph*<sup>48</sup> provides computer services to the State Court of Justice, and by the need to interconnect the court with the PGE.

---

<sup>47</sup> For further details, see Annex III.

<sup>48</sup> Poligraph-Sistemas e Representações Ltda, a company in the same group as *Softplan*.

**B. Environmental and social risks**

- 2.8 According to the criteria of the Bank's Environmental Safeguards Policy (B.13, OP-703), the project does not require environmental classification because it is an institutional modernization project in a finance department, and no negative environmental impact risks are anticipated ([optional electronic link 15](#)).

**C. Risks**

- 2.9 Risk was analyzed by the project team in a meeting with representatives from all entities directly or indirectly involved in project implementation, including the PGE and the State Audit Office. The risks identified and primarily associated with the project were classified as medium, as set out below together with their mitigating actions.
- 2.10 **Development.** There is a MEDIUM risk of difficulties arising in the implementation of innovative inspection tools for goods in transit (new risk analysis methodologies, scanners, boats for inspecting river transport, dynamic weigh scales, surveillance cameras, etc.), which could make it difficult to attain the planned targets as a result of the lack of experience on these topics in SEFAZ operational areas. This risk will be mitigated by conducting technical visits to other states that have similar instruments operating, and by preparing a detailed implementation strategy.
- 2.11 **Governance.** There is a MEDIUM risk of coordination problems arising in program implementation, which could make it difficult to meet the planned deadlines, owing to the participation of various state institutional actors (General Tendering Center – CGL; and the State Infrastructure Department – SEINFRA) in processes for the procurement of goods and services associated with the output that will finance the remodeling of SEFAZ physical premises. This risk will be mitigated by preparing and implementing a monitoring plan for procurement, specifying the responsibilities and functions of the entities involved in the process. In addition, the regulations under Delegated Law 82, of 18 May 2007, govern SEINFRA participation.
- 2.12 **Sustainability of the reforms.** There is a MEDIUM risk of an operational gap in the program's progress, since SEFAZ systems will need to be integrated with those of the PGE, and be made compatible with the standards of the court system. Any change in one of the systems will require adjustments in the others. To mitigate this risk, a contingency plan will be developed, identifying coordination bottlenecks between the three entities, and the respective alternatives to mitigate the problems.
- 2.13 **Fiduciary.** There is a MEDIUM risk of delays in the goods and services procurement processes, because of executing agency difficulties in preparing terms of reference and technical specifications for the products in accordance with the Bank's policies. This risk is partially mitigated because the program has administrative resources for hiring consultants to prepare the terms of reference and technical specifications. The Bank will also provide training for the executing

agency and all the actors involved in the process, on procurement and financial management topics in accordance with the Bank's policies.

- 2.14 **Monitoring and accountability.** There is a MEDIUM risk of delays occurring in goods and services procurement processes, owing to a lack of experience in the executing agency in project management and accounting according to the Bank's requirements. To mitigate this risk, the Bank will provide the executing agency with training on accounting and reporting.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of the institutional agreement for implementation

- 3.1 The borrower will be the State of Amazonas, with the Federative Republic of Brazil guaranteeing the financial obligations arising from the loan. The project's executing agency will be the State of Amazonas, acting through SEFAZ, with support from its executive departments and in coordination with the Projects Coordination Unit (PCU) set up in the office of the State Finance Secretary pursuant to Law 3,943 of 9 October 2013. The PCU will consist of Amazonas state employees assigned for the coordination of PROFISCO-AM.
- 3.2 The PGE will collaborate with SEFAZ as a technical agency in the execution of Component II. It will be responsible, among other activities, for assisting in the preparation of terms of reference, analysis of proposals, monitoring and supervision of the activities within its brief, related to the management of adjudicated tax claims and litigation. In program activities that are within its jurisdiction, the PGE will be responsible for requesting the corresponding payments to be made by SEFAZ. The project works contracting will be carried out by SEINFRA and the respective payments will be made by SEFAZ.
- 3.3 The PCU will have the following responsibilities: (i) submitting disbursement requests to the Bank, duly supported by the relevant documentation; (ii) supervising goods and works procurement and service selection processes, including consulting services, according to the corresponding procurement plan and the Bank's policies on the subject; (iii) maintaining the project's accounting system appropriately, according to the Bank's rules on the subject; (iv) submitting project execution reports; (v) presenting operational plans and updating the procurement plan; (vi) storing the respective invoices, contracts, and payment orders, and submitting them to the Bank and to the project auditors when requested; and (vii) ensuring that the works and goods procured with project funds are being maintained in accordance with generally accepted technical standards.
- 3.4 **Program Operating Regulations.** The project will be governed by Operating Regulations previously approved by the Bank as an integral part of the PROFISCO CCLIP. The Operating Regulations include the eligibility criteria for borrowers in individual PROFISCO operations, and projects and products that are eligible for financing. **As a special condition precedent to the first disbursement of the loan**

**proceeds, the borrower will provide evidence that the Operating Regulations, previously approved by the Bank, have entered into force.**

**B. Summary of results monitoring arrangements**

- 3.5 **Monitoring.** Project monitoring will be based on the Results Matrix, the activities programming, the physical and financial breakdown of the outputs specified in the semiannual status reports, the procedures of the support methodology for preparing and supervising projects, and the descriptions of the procurement processes contained in the procurement plan. The borrower will also provide the Bank with semiannual progress reports, copied to the Executive Secretariat of the Ministry of Finance of the Federative Republic of Brazil. These reports will include information on the current phase of implementation of the actions scheduled in the different components of the program.
- 3.6 **Evaluation.** The project will be evaluated in terms of the targets for outputs and outcomes, and their respective annual indicators, contained in the project's results framework. In addition, the impact evaluation methodology to be used in all PROFISCO operations is being developed through technical cooperation operation ATN/OC-11989-BR.
- 3.7 An ex post financial evaluation will subsequently be performed to evaluate the financial performance of the outcomes that can be estimated, using a methodology similar to the one used in program preparation, to compare returns after program conclusion with estimates during its preparation.<sup>49</sup>
- 3.8 The PCU will send the Bank a final evaluation report, which will serve as an input for the Project Completion Report (PCR), 90 days after the date on which 90% of the loan proceeds have been disbursed. The borrower will file annual financial statements for the project with the Bank, no later than 120 days following the end of each fiscal year, duly audited by the State of Amazonas Audit Office (TCE).

---

<sup>49</sup> The purpose of the ex post evaluation is to verify whether the estimations justifying Bank funding were maintained during the ensuing period. A further aim is to identify any other economic benefits that have not been quantified ex ante.

Development Effectiveness Matrix				
Summary				
I. Strategic Alignment				
1. IDB Strategic Development Objectives		Aligned		
Lending Program		Lending to support regional cooperation and integration.		
Regional Development Goals		i) Ratio of actual to potential tax revenue; and ii) Public expenditure managed at the decentralized level as % total public expenditure.		
Bank Output Contribution (as defined in Results Framework of IDB-9)		i) Public financial systems implemented or upgraded; and ii) Municipal or other sub-national governments supported.		
2. Country Strategy Development Objectives		Aligned		
Country Strategy Results Matrix	GN-2662-1	Reduce institutional disparities and inequalities between Brazilian tax administrations and promote cooperation and integration of finance administrations in three levels of government. Promote sustainable fiscal balance at the subnational level. Improve tax education and citizenship programs and initiatives on transparency and dialogue with society.		
Country Program Results Matrix	GN-2756	The intervention is included in the 2014 Country Program Document.		
Relevance of this project to country development challenges (If not aligned to country strategy or country program)				
II. Development Outcomes - Evaluability		Evaluable	Weight	Maximum Score
		8.9		10
3. Evidence-based Assessment & Solution		10.0	33.33%	10
3.1 Program Diagnosis		3.0		
3.2 Proposed Interventions or Solutions		4.0		
3.3 Results Matrix Quality		3.0		
4. Ex ante Economic Analysis		10.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis		4.0		
4.2 Identified and Quantified Benefits		1.5		
4.3 Identified and Quantified Costs		1.5		
4.4 Reasonable Assumptions		1.5		
4.5 Sensitivity Analysis		1.5		
5. Monitoring and Evaluation		6.6	33.33%	10
5.1 Monitoring Mechanisms		2.5		
5.2 Evaluation Plan		4.1		
III. Risks & Mitigation Monitoring Matrix				
Overall risks rate = magnitude of risks*likelihood		Medium		
Identified risks have been rated for magnitude and likelihood		Yes		
Mitigation measures have been identified for major risks		Yes		
Mitigation measures have indicators for tracking their implementation		Yes		
Environmental & social risk classification		B.13		
IV. IDB's Role - Additionality				
The project relies on the use of country systems				
Fiduciary (VPC/PDP Criteria)	Yes	Financial Management: i) Budget; ii) Treasury; iii) Accounting and Reporting; and iv) External Control. Procurement: i) Information System; ii) Shopping Method; Contracting individual consultant; and iv) National Public Bidding.		
Non-Fiduciary	Yes	i) Strategic Planning National System; and ii) Monitoring and Evaluation National System.		
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:				
Gender Equality				
Labor				
Environment				
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		Yes	Technical Cooperation BR-T1145 was approved to provide training on issues related to project management, monitoring and evaluation and shopping and contracting Bank policies, to the executing agency and other actors involved in the project.	
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan				

The state of Amazonas has as one of its main challenges improving fiscal management, required to maintain its fiscal balance and the current levels of public investment necessary to improve its social indicators. To address this challenge, this program aims to increase tax revenues and improve their financial management. The determinants of the main problems are identified and quantified.

The proposed solution is linked with the outlined problems and adequate evidence is presented of the impact of this type of intervention in other states of the Federation. However, given that the current program is part of a series of similar loans focused on the fiscal sector, a more robust presentation of evidence of effectiveness would have been expected.

The results matrix has vertical logic and presents impact, results and product level indicators. It is expected that at the end of the implementation period the project will contribute to the maintenance of the goals established by the Fiscal Adjustment Program (FAP) and a reduction in the total cost of the tax revenues from 3.3% to 3.0%, by increasing its state revenues and improving its financial management of the public debt and improving strategic information systems.

The package contains an economic analysis that is based on expected revenue increases as well as the reduction in current tax administration costs. The analysis is a financial cost-benefit analysis from the perspective of the State Government.

## RESULTS MATRIX

<b>Program objective:</b>	The program's objective is to improve the efficiency and effectiveness of fiscal management in the State of Amazonas, by increasing the state's own revenue and improving its financial management, thereby helping to improve the overall equilibrium and sustainability of its public finances.
---------------------------	---

### EXPECTED IMPACTS

Impact indicator	Unit of measurement	Baseline	Final target	Source / Means of verification	Comments
<b>Impact 1: Maintain the state's fiscal indicators within the limits agreed upon with the federal government under the Fiscal Adjustment Program (PAF)</b>					
Average primary balance / GDP	%	(average 2009-2013) -0.65	(average 2015-2019) 0.12	Evaluation report on the PAF issued by the National Treasury Department (STN).	By agreement, the states will attain the PAF targets when executing projects under the Program to Support the Management and Integration of Finance Administrations in Brazil (PROFISCO). The targets agreed upon are reviewed annually by the STN, during the evaluation process, projections being made for three years ahead.
<b>Impact 2: Enhance the efficiency of tax collection</b>					
Total SEFAZ costs / Tax revenue	%	(2013) 3.3	(2019) 3.0	Calculated using information from the transparency portal of the State Finance Department (SEFAZ). ( <a href="http://www.transparencia.am.gov.br/transpprd/">http://www.transparencia.am.gov.br/transpprd/</a> )	In 2013: Total SEFAZ costs = R\$265 million Tax revenue = R\$8.082 billion The revenue efficiency indicator (Total SEFAZ costs / Tax revenue) was 3.3% in 2013, compared with an internationally recommended level of 2%. (Source: International Monetary Fund – IMF).

EXPECTED OUTCOMES

Outcome indicator	Unit of measurement	Baseline (Year – Value)	Intermediate target (Year – Value)	Final target	Source / Means of verification	Comments
<b>Outcome 1: Increase in ICMS revenue collected from the control of goods in transit</b>						
Nominal amount of Goods and Services Sales Tax (ICMS) revenue obtained from the control of goods in transit	R\$ billion	(2013) 3.968		(2019) 6.766	Revenue map produced by the Sector Analysis Division of the State of Amazonas Revenue Department (SER)	This assumes a real fiscal effort of 0.6% per year, on top of average nominal revenue growth of 9% per year (as achieved between 2007 and 2013). This estimation is compatible with average annual inflation of 5.5%, and average real GDP growth in the State of Amazonas of 4.5% for the 2013-2019 period. Source: Economic Assessment.
<b>Outcome 2: Reduction in SEFAZ building expenses</b>						
Average annual expenditure on buildings housing SEFAZ units (rental, office fittings, electric power, cleaning, and building maintenance)	R\$	(2013) 2,813,000		(2015-2019) 904,000	Report produced by the SEFAZ Public Accounts Management System (SGCP).	Savings of R\$1,909,000. See Economic Assessment and SEFAZ Technical Note.
<b>Outcome 3: Increase in ICMS revenue obtained from tax intelligence actions</b>						
Revenue generated by firms that are not being audited	R\$	(2013) 851 million		(2019) 1.896 billion	Activities report of the Fiscal Action Planning Office (GPA).	See SEFAZ Technical Note. 88% of establishments were not audited in 2013 and generated R\$ 851million in revenue.



Outcome indicator	Unit of measurement	Baseline (Year – Value)	Intermediate target (Year – Value)	Final target	Source / Means of verification	Comments
<b>Outcome 4: Increase in amounts recovered as a percentage of outstanding adjudicated tax claims</b>						
Average value of adjudicated tax claims recovered in the year / Average value of adjudicated tax claims outstanding in December of that year.	%	(2010-2013) 0.64		(2016-2019) 1.5	Management report issued by the State Attorney General's Office (PGE).	The average total balance of adjudicated tax claims between 2010 and 2013 was R\$1.8 billion. On average R\$20 million were recovered per year, excluding atypical results of specific actions that should also be ignored when estimating the impact.
<b>Outcome 5: Reduction in the margin of error between the amount estimated for debt payment and the amount actually paid</b>						
Average amount allocated for debt service in the period less average amount of debt service actually paid in the period / Average amount allocated.	%	(2008 - 2012) 16		(2015-2019) 10	SEFAZ management report on debt service payments.	The calculation of this indicator only considered the percentage difference each year between the amount allocated and the amount paid, whether positive or negative.
<b>Outcome 6: Reduction in SEFAZ IT management risk level</b>						
IT risk classification index	%	(2009) 51		(2019) 10	Evaluation report on the management of SEFAZ information technology (IT) risks issued by an independent firm.	The evaluation of SEFAZ IT risk management in 2009 reported a 51% risk level in the IT areas, physical environment, personnel and processes (on a scale of 0% to 100% risk, the lower the better).

### OUTPUTS

Output indicators	Unit of measurement	Baseline (2013)	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Source / Means of verification	Comments
<b>Component I: Integrated strategic management</b>										
1.1 Remodeling of physical space in SEFAZ units to standardize their operational model.	SEFAZ units remodeled	1			1	1		3	On-site verification report produced by independent consultants.	Headquarters building, Annex 2, Permanent Materials Deposit (DMP), and Confiscated Merchandise Deposit (DMA).
1.2 Establishment of interagency cooperation mechanisms for participation in regular annual meetings.	Interagency cooperation mechanism	0	1					1	Minutes of the regular meetings held by the executive bodies.	Regular annual meetings held by the executive bodies: Finance Management Commission (COGEF), the State Finance Managers Group (GEFIN), the Treasury Civil Servant Development Group (GDFAZ), and in the Tax Education Group (GEF).
<b>Component II: Tax administration and tax litigation</b>										
2.1 Establishment of new transit inspection procedures, accentuating risk analysis, in tax inspection units ( <i>postos fiscais</i> ).	Tax inspection units with new procedures	0		2	2	2	2	8	Inspection report generated by the Fiscal Action Management (GAF) system.	Tax inspection units with the new risk analysis-based inspection model (see technical note).

Output indicators	Unit of measurement	Baseline (2013)	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Source / Means of verification	Comments
2.2 Establishment of new tax audit procedures based on business intelligence (BI) for establishments that file tax returns online.	Tax audit procedures	0					1	1	Report on audits performed by the Executive Revenue Department using the BI tool.	The new tax audit procedures will make it possible to audit 3,400 establishments in addition to the 8,000 that filed online tax returns in 2012 (out of a total of 20,000) (see Technical Note).
2.3 Upgrading of the adjudicated tax claims management system and integration with the SEFAZ system.	System	0					1	1	PGE report on the adjudicated tax debt management system.	PGE system to be integrated with the SEFAZ system including the protests module.
<b>Component III: Financial and property management and internal control</b>										
3.1 Introduction of the public debt management system.	System	0					1	1	SEFAZ report on the public debt management system.	Public debt module integrated into the integrated financial management (AFI) system.
3.2 Development and introduction of the cost calculation and booking system.	System	0				1		1	SEFAZ report on the public costs management system.	Cost system integrated into the AFI system.
3.3 Consolidation of the state liabilities management system	System	0					1	1	PGE report on the liabilities management system.	PGE system for tracking lawsuits, including the module for management of liabilities.

Output indicators	Unit of measurement	Baseline (2013)	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Source / Means of verification	Comments
<b>Component IV: Management of strategic corporate resources</b>										
4.1 Introduction of the information technology development plan (PDTI)	Plan	0					1	1	PDTI.	Upgrading of the technological environment and planning tools, and the hardware and software infrastructure.
4.2 Establishment of the competency-based training program	Program	0					1	1	Permanent competency-based training program for Treasury civil servants.	The program will take the necessary gender considerations into account to ensure equitable participation by women and men in the training events.

## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

<b>Country</b>	Brazil
<b>Project No.:</b>	BR-L1388
<b>Project Name:</b>	Fiscal management modernization and strengthening program of the State of Amazonas (PROFISCO/AM).
<b>Prepared by:</b>	German Zappani (FMP/CBR); Carlos Lago Bouza (FMP/CBR); Mario Ferreira de Andrade (CSC/CBR); and Andreia da Silva Oliveira Gomes (CSC/CBR).

### **I. EXECUTIVE SUMMARY**

- 1.1 The evaluation of fiduciary management was based on meetings held with the Bank's project team, the professional staff of the Projects Coordination Unit (PCU), and the technical staff responsible for different areas of the State of Amazonas Finance Department (SEFAZ), related to planning, budget, accounting, finance, internal control, and the government's public debt. Account was also taken of the operation's preparation documents, the project profile, institutional assessment, and risk matrix, together with the Bank's experience of working with projects under the PROFISCO credit line. In view of the evaluation of the executing agency, fiduciary agreements for program execution have been prepared for both procurement and financial management.

### **II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY**

- 2.1 The executing agency will be SEFAZ, which is organized into four executive bureaus: Budget (SEO), Treasury (SET), Revenue (SER) and Administration (SEA). SEFAZ and the State of Amazonas Attorney General's Office (PGE) are direct beneficiaries of program resources.
- 2.2 The program will be coordinated by a special unit—the Projects Coordination Unit (PCU). It was created through State Law 3,943 of 9 October 2013, to manage SEFAZ projects. The PCU, which reports directly to the Secretary of Finance, is currently coordinating operations in the PROCONFIS/IDB policy-based loan (PBL) program. SEFAZ will issue an ordinance defining the responsibilities and competencies of the PCU and other areas involved in the program.
- 2.3 The PCU will consist of a coordinator and a team of technicians drawn from SEFAZ career staff. It will also receive permanent support from the SEFAZ functional structure, for activities involving legal assistance and administrative, financial, and operational control of the projects.

- 2.4 The PGE will work with SEFAZ in the implementation of Component II, serving, among other activities, as technical agency responsible for advisory support in terms of reference preparation, bid analysis, and the monitoring and supervision of activities under its jurisdiction, related to the management of adjudicated tax claims and litigation. In the program activities that are within its purview, the PGE will be responsible for requesting the corresponding payments to be made by SEFAZ.
- 2.5 The State of Amazonas Infrastructure Department (SEINFRA) will work with SEFAZ in the execution of all program activities that involve the remodeling of physical premises, as specified in Delegated State Law 82 of 18 May 2007. In this process, although budget funds are earmarked for SEINFRA, the corresponding final payments are made by SEFAZ through the General Treasury Account.

### **III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES**

- 3.1 The risk analysis, based on the Program Risk Management (PRM) methodology, resulted in a medium-risk classification, while stressing the need to support project management in its initial phase. The relative inexperience within SEFAZ in executing investment loans with international organizations makes it essential to provide training for the PCU team and the staff of the General Bidding Committee (GBC) in the Bank's fiduciary procedures and policies. The specific fiduciary risks and their mitigation measures are detailed in the Risk Mitigation Matrix.

### **IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACTS**

- 4.1 Considerations for the fiduciary conditions are as follows:
  - a. The criterion chosen by the state for converting local-currency expenses into U.S. dollars will be as follows: for advances of funds, the exchange rate in effect on the date on which the currency of the operation is converted into local currency; and for reimbursement requests and local counterpart, the exchange rate in effect on the date on which the disbursement request is presented.
  - b. SEFAZ undertakes to make the adjustments needed for the integrated financial management (AFI) system to generate information per program component; or it will use the PROSAMIM – SIGPRO management information system.

### **V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION**

- 5.1 The fiduciary agreements and requirements for procurement set out the provisions applicable for the execution of all procurement planned under the program.

**A. Procurement execution**

- 5.2 The program's procurement will be processed through the PCU and the GBC. Works, goods, and nonconsulting services will be procured using the Policies for the procurement of works and goods financed by the IDB (document GN-2349-9); and consultants will be selected and contracted using the Policies for the selection and contracting of consultants financed by the IDB (document GN-2350-9), both of March 2011.
- 5.3 **Procurement of works, goods, and nonconsulting services.** Contracts for works, and goods, and nonconsulting services<sup>1</sup> under the project that are subject to international competitive bidding (ICB) will be executed using the standard bidding documents (SBDs) issued by the Bank.
- 5.4 **National legislation.** As explicitly provided for in the PROFISCO framework document (BR-X1005), the borrower has requested authorization to use Brazilian federal legislation for the procurement of works in amounts below US\$25 million per contract, and goods and nonconsulting services in amounts below US\$5 million per contract. The borrower's decision to apply Brazilian federal legislation will be indicated in the procurement plan. The procurement of works, goods, and nonconsulting services in amounts equal to or above the thresholds specified in this paragraph will be undertaken according to document GN-2349-9 of April 2011.
- 5.5 **Selection and contracting of consultants.** Consulting service contracts generated under the project will be executed using the standard request for proposals (SRPs) issued by the Bank. The project's sector specialist will review the terms of reference for the contracting of consulting services.
- 5.6 **Selection of individual consultants.** Individual consultants will be selected on the basis of their qualifications to do the work, based on a comparison of at least three candidates. When the situation so requires, notices may be published in the local or international press to invite qualified consultants to submit résumés.
- 5.7 **Advance contracting and retroactive financing.** The Bank may retroactively finance up to US\$7.38 million as a charge against the loan proceeds (20% of the loan amount), and recognize up to US\$4.1 million against the local counterpart funding (100% of the counterpart), for eligible expenses incurred by the borrower before the loan approval date, provided requirements substantially analogous to those specified in the loan contract have been fulfilled. The expenses in question will have been incurred after the project profile approval date (2 May 2014), and in no circumstances will they include expenses incurred more than 18 months before the loan approval date, pursuant to the terms of the Bank's Policy on recognition of expenses, retroactive financing, and advance procurement (document GN-2259-1/OP-507). This retroactive recognition is justified by the advance implementation of bidding processes in Amazonas to upgrade SEFAZ's

---

<sup>1</sup> The Bank's procurement policies treat nonconsulting services as goods.

- physical and logistics premises, and to purchase specialized equipment and computer hardware for the inspection of goods in transit.
- 5.8 **Direct contracting.** In accordance with section 3.10 (d) of the Policy for the selection and contracting of consultants financed by the IDB (document GN-2350-9), the borrower may directly contract the data processing company *PRODAM Processamento de Dados Amazonas S.A.*, which is a semipublic closed-capital corporation created by Law 941/70, in which the State of Amazonas is the controlling shareholder, for a total amount of roughly US\$1.0 million. The direct contracting of PRODAM is justified by the need for continuity in the work it is currently doing in SEFAZ and because of its unique technical knowledge of the State of Amazonas's information systems.
- 5.9 The borrower may also directly contract *Softplan Planejamento de Sistemas Ltda.*, for an amount of up to US\$1,063,000, to prepare the litigation and consultative modules for the PGE with a view to pge.net program expansion. The direct contracting of *Softplan* is justified by the need for continuity of the work undertaken in the PGE, by the firm's unique technical knowledge of PGE information systems, and by the exclusive intellectual property rights granted to it by the Brazilian Software Enterprises Association. The contracting is also justified by the fact that *Poligraph*<sup>2</sup> provides computer services to the State Court of Justice, and by the need to interconnect the court with the PGE.
- 5.10 **Domestic preference.** No domestic preference margins will apply.
- 5.11 **Thresholds for procurement processes.** The threshold for the use of ICB will be made available to the borrower or executing agency, as applicable, online at [www.iadb.org/procurement](http://www.iadb.org/procurement). Below this threshold, the selection method will be determined according to the complexity and characteristics of the procurement in question, which must be reflected in the procurement plan approved by the Bank.
- 5.12 **Initial procurement plan.** The current proposal is attached. The version eventually agreed upon may be updated during project execution, according to circumstances ([Required electronic link 3 - Procurement Plan](#)).
- 5.13 **Procurement supervision.** All ICB, direct contracting, and consultant selections for estimated amounts above US\$1 million will be reviewed ex ante. In view of the characteristics of the project and the PCU's operational capacity, the remaining procurement processes will be reviewed annually ex post. The Bank may alter the mode of review indicated in the procurement plan in the light of the annual audit reviews.
- 5.14 **Records and files.** Files will be kept at the SEFAZ offices under the appropriate security conditions.

---

<sup>2</sup> Poligraph Sistemas e Representações Ltda., a firm in the same group as *Softplan*.



## **VI. FINANCIAL MANAGEMENT**

### **A. Programming and budget**

- 6.1 SEFAZ is responsible for preparing the state's annual budget proposal, and for setting the financial limits that guide the preparation of the budgets executed by other government departments, including the program's operations. In these programming activities and in controlling the execution of the general state budget, it uses the computerized integrated financial management (AFI) system.
- 6.2 In preparing the budgets, SEFAZ and other departments follow the government's guidelines and plans, as set out in the multiyear plan pertaining to the period in question.
- 6.3 The State of Amazonas Planning and Economic Development Department (SEPLAN) prepares and periodically revises the multiyear plan, which is the main planning document guiding all long-term government activities. These revisions are based on the work of monitoring execution of the departments' annual budget—the Budgetary Guidelines Law (LDO)—and on the government's plans of action. This multiyear plan with its annual revisions must be approved by the State Legislative Assembly. To support these activities, SEPLAN uses the State of Amazonas Planning System (SPLAM), which is integrated with the AFI.
- 6.4 The program's counterpart funding will be provided by the state, and no difficulties are anticipated in the provision or timeliness of these resources.

### **B. Accounting and information systems**

- 6.5 All activities involving accounting and financial record-keeping and budgetary management control in relation to government operations are conducted through the AFI system. The data recorded are classified by the source of funds used and under the headings of the state's official chart of accounts. This system and, in general, all SEFAZ internal procedures and institutional resources will be used by the PCU in the process of implementing the program and maintaining financial control over it.
- 6.6 The functions of the AFI do not yet allow program investments to be controlled according to the Bank's components nomenclature, as defined in the single annex to the loan contract. Nonetheless, SEFAZ is committed to making the operational adjustments needed to overcome this constraint; or it will use the PROSAMIM – SIGPRO management information system.

### **C. Disbursements and cash flow**

- 6.7 Program disbursements and cash flows will be prepared and administered by the PCU, using the SEFAZ financial structure. The advance of funds modality will mainly be used. It is recommended that accountability for these disbursements, to be requested based on semiannual forecasts of eligible expenses, be filed with the Bank when at least 80% of the amount advanced by the Bank has been used. The procedure of ex post review of disbursements will be applied in the program.

- 6.8 SEFAZ has stated that the funds advanced by the IDB will be deposited in a special bank account to be opened to facilitate the management, control, and use of the resources in question.

**D. Internal control and internal audit**

- 6.9 The internal control of state operations is maintained by the State Comptroller General's Office, the main activity of which is to review the accounts filed by the departments that manage state projects.
- 6.10 Internal control is also a responsibility of the SEFAZ/SET Sector Inspection Division, which reviews works and services contracts, commitments, settlement notes, and payments made by all government departments. These internal control activities currently have shortcomings stemming from a relative lack of available staff. Even with the observed staffing constraints, however, these control activities should include the program's operations; and the work in question is also to be coordinated with the program's external auditors.

**E. External control and reports**

- 6.11 The program's external audit will be conducted by the State of Amazonas Audit Office (TCE/AM), which has recently become eligible to audit Bank projects in the state. At the present time, the TCE is performing audits on the PROSAMIM and PROCONFIS programs. TCE representatives expressed interest in performing these services and confirmed having the technical/operational capacity available to comply with the Bank's audit timeframes and requirements.
- 6.12 These tasks will abide by international auditing standards and the external audit requirements specified by the Bank. The audited financial statements as of 31 December each year will be filed annually within the 120 days following the end of each calendar year, starting in the year in which disbursement of the loan proceeds begins.

**F. Fiduciary supervision plan**

- 6.13 The supervision plan in its current version is designed for a medium-risk operation. This plan could be altered during project execution, according to observed risk circumstances or to satisfy additional control needs determined by the Bank.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_\_/14

Brazil. Loan \_\_\_\_/OC-BR to the State of Amazonas  
Fiscal Management Modernization and Strengthening  
Program of the State of Amazonas  
(PROFISCO-AM)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the State of Amazonas, as Borrower, and with the Federative Republic of Brazil, as Guarantor, for the purpose of granting the former a financing to cooperate in the execution of the Fiscal Management Modernization and Strengthening Program of the State of Amazonas (PROFISCO-AM), which constitutes an individual operation under the Conditional Credit Line (CCLIP) for the Program to Support the Management and Integration of Finance Administrations in Brazil (PROFISCO) approved on 5 November 2008 by Resolution DE-132/08 and amended on 11 July 2013 by Resolution DE-75/13. Such financing will be for an amount of up to US\$36,900,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_\_ 2014)